

UNCORRECTED PROOF ISSUE

Thursday 3 December 2015 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Networks Pty Ltd

LEGISLATIVE COUNCIL

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

Thursday 3 December 2015

MEMBERS

Mr Armstrong
Mr Farrell
Ms Forrest (Chair)
Mr Gaffney
Mrs Hiscutt (Deputy Chair)
Mr Mulder

IN ATTENDANCE

Hon. Matthew Groom MP, Minister for Energy

Ministerial Office

Mr Michael Connarty, Senior Adviser

Tasmanian Networks Pty Ltd

Mr Lance Balcombe - Chief Executive Officer

Mr Dan Norton - Chairman of the TasNetworks Board

Mr Ross Burridge - General Manager Finance & Business Services

Ms Bess Clark - General Manager Strategy and Stakeholder Relations

Ms Linda Manaena - Communications and Brand Leader

The committee resumed at 10.52 a.m.

CHAIR - Welcome back, minister. I invite you to introduce your team on that side of the table for Transend.

Mr GROOM - Thank you very much. I would like to welcome to the table Dan Norton, Chairman of the board, Lance Balcombe, CEO, and Ross Burrige, General Manager Finance and Business Services.

I will make some brief introductory comments. I acknowledge again what has been a very solid outcome for the business over the course of the last year, the first full year as the new merged business and a lot of effort has gone into that. No doubt that will continue to be a focus of the business.

There have been some significant outcomes for the business. In the first instance it could be described as a very solid financial performance, dealing with some difficult issues, with a profit after tax of \$113 million, which was slightly below budget but was offset by a strong outcome in reducing operating costs. This has been one of the hallmarks of the business to date, a strong focus on cost reduction and operating its business in a very efficient manner.

In the first full year TasNetworks has delivered recurring operating savings of more than \$34 million. The capital expenditure is also reducing compared to historic levels. That recurring savings is a very significant outcome and it was well in excess of what was originally identified.

In addition, there has continued to be a strong focus on helping to deliver the lowest possible sustainable power prices for Tasmanians, both businesses and households, and also very importantly, a key focus of the business has been to do all they can to assist in achieving predictable power prices. It is not an easy challenge but a very important point.

Consistent with that, the recent revenue determination for transmission sets a materially lower forward operating and capital program which will assist in achieving the lowest possible price outcomes. The business is currently working on the distribution determination which will also focus on sustainable price outcomes. They have continued to place a very heavy focus on responding to the needs of the customers and through the course of the year I have had strong feedback from customers about the positive approach to working with customers and finding win/win solutions. Consistent with that, customer complaints are down when compared to the previous businesses.

This is another of the very important businesses of Tasmania. I thank the board and the management of TasNetworks for what has been a very commendable first full year as a merged entity and acknowledge the significant work they have done on keeping costs down, of ensuring that they are focused on customer outcomes, and in playing a part in delivering on the Government's objectives of securing the lowest possible power prices for the genuinely sustainable over the longer term.

Dr NORTON - You have said most of the pertinent things, minister. I have been involved with a number of mergers over the years and I am very proud of the way this merger has gone. We have been able to deliver efficiencies. We have been able to maintain a good safety performance and that is always a challenge when you change businesses around.

People might take the eye off safety but we have hit historic lows in loss-of-time injury performance during the year so that has been good. We have been able to continue our 'business as usual' activities. We trust we are well-prepared for the bushfire season - you hope that you won't have bushfires but they are a fact of life - and we have been able to do that. We have been able to maintain our overall performance very well.

The other pleasing thing from my perspective is settling in a new executive management team and other leaders through the business. I am very proud that of the eight members of the executive leadership team, four are women and four are male, so we have a 50 per cent gender balance at the executive level. I have been around the electricity industry for over 20 years and I have never seen that many in any other electricity business so that is something that I am particularly proud of.

Lance has done a very good job, the team has done a good job, and despite that it is a big job getting a business together, the job is ahead of us. We have to continue to provide a safe environment for ourselves and our customers, sustainable pricing, and put pressure on our cost structure so that we hopefully get reduced levels of pricing for our customers, better customer performance, and better performance of us in dealing with our customers. All those things are really important.

We are only starting a transformation project that will take a number of years to reach fruition but as far as I am concerned we have made a good start.

CHAIR - Thank you. I have the same question that Hydro was given at the beginning. Your financials have ticked off on 14 August by the Auditor-General and it takes two-and-a-half months to have an annual report tabled in Parliament. In terms of accountability and informing your key stakeholders, is there any intention to try to do that more quickly?

Mr GROOM - I will provide the answer that I provided earlier this morning, Chair, and that is that the company does all it can to deliver information into the public domain in a timely manner and consistent with its obligations. I take your point in relation to the timing and I will take that on notice. Though, from the company's perspective, a lot of work goes into these public documents and from the company's perspective it seeks to do that in a timely manner consistent with its obligations.

CHAIR - In terms of the Energy Expert Panel's recommendation at half-yearly financials prepared and released publicly, as they are prepared for you and the Treasurer to enable greater accountability, transparency, and scrutiny by your key stakeholder, the Parliament. Will you look at that with Transend as well?

Mr GROOM - As I indicated this morning, it is probably a matter for -

Mr BALCOMBE - You actually said Transend.

CHAIR - Did I? Sorry, TasNetworks. A bit of regression, sorry. Thank you for the correction.

Mr GROOM - As I indicated this morning, it is probably not for me as the minister sitting here to commit to a policy position on that, but it is a fair policy question and I am happy to take it under consideration.

CHAIR - Regarding the significant risks to the business that were identified by the Auditor-General - I would like to go through risk. Your debt to equity ratio is one risk, but he has also identified a few others. The issue with working capital - I think you mentioned in your overarching comments, minister - I notice \$181 000 had to be paid in interest on overdue accounts, which would be an indication of a tight working capital situation. I notice the other GBEs do not, and Hydro had a small amount, TasPorts none. I have focused on those because they are the three we are looking at. It is a concern that there is \$181 000 that could have been used more beneficially.

Mr BALCOMBE - We agree. One of the challenges we have as a merged business is that, in driving efficiencies, we have inherited a lot of inefficiencies. From the perspective of our systems, we inherited two of everything. Two payroll systems, two finance systems, three asset management systems -

CHAIR - A very expensive billing system. No, you did not get that. Aurora kept that.

Mr BALCOMBE - Aurora kept that, but we run it for them. That has created a lot of issues within our business from the point of view of access to information. We did enough in the merger situation to - for want of a better term - stick the systems together, from the point of view of any operational efficiencies and things that come behind that.

That \$180 000 is not due to any working capital issues. It is due to inefficiencies in our business, in being late. There is a whole value chain that comes into that. You issue a purchase order, the goods come in, the purchase order needs to be matched to the invoice, and whoever receives those goods needs to sign off the invoice is okay to pay. We have many inefficiencies throughout that entire value chain at the moment. That means we get beyond our targeted due dates. We are working on that. We have introduced a new internal mechanism to improve that.

One of those mechanisms is that we are penalising the part of the business. Instead of centralising that interest cost, we are penalising if there is a 'go outside the due date' and there is interest paid to the supplier. The part of the business that incurs that interest gets charged against its budget. We are using that to drive performance as well. We have introduced a new payment of accounts policy that establishes clear accountabilities in that. We have seen some improvement, but there is still a lot of room to improve. Ultimately, what is going to improve this is when we get our new business systems up by the Agilis project.

CHAIR - What project is that?

Mr BALCOMBE - Agilis. It is our new business transformation and SAP project. That will transform a lot of these processes and drive those efficiencies.

CHAIR - In terms of the major high-risk audit claim that the Auditor-General referred to, he noted:

Anyone within the Navision finance team could raise and post journals.
In addition, there was no review of journals before or after they were posted.

This was a system inherited from Aurora, as I understand it.

Mr BALCOMBE - I presume so. Yes, that sounds right.

Mr BURRIDGE - The division is ex-Aurora.

CHAIR - Yes, but it is still part of your business at the moment?

Mr BURRIDGE - Yes.

CHAIR - What is the plan to deal with this risk, and try to streamline and get rid of the duplication of all these systems that seem to be costing money?

Mr BURRIDGE - A few activities are in place. For example, we have rationalised payroll into one system, where we had two. Ultimately, until Agilis is in the business, in the next 12 to 18 months, we will do the best we can by holding the two separate systems together. That takes a lot of manual process.

The question about the journals is something we addressed by now controlling who has journal ability - to write out the journal, out or to perform a journal. At the moment, we are looking for the efficiencies we can find but the major change will come when the [inaudible 11:05:37]

Mr GROOM - These are some of the natural challenges of a merged entity. I acknowledge - as Lance has alluded to - regarding payment of accounts and some of the other inefficiencies, there is a full recognition of the need to do further improvement. That is the process that is underway. We need to put it in its broader context, and that is, the business has done an outstanding job in securing recurring operational savings as a result of the merger. \$34 million of savings, which will be recurring. That is a benefit we will deliver to the people of Tasmania on an ongoing basis. What has been acknowledged by management is that there is further opportunity for efficiencies, which in turn, once they can be secured, can deliver ongoing benefit to the public of Tasmania. These are the natural challenges of any merger.

CHAIR - The cynic in me would say that \$30 million of that is going straight to FT.

Dr NORTON - That is not right. That was last financial year.

CHAIR - It is this financial year you paying that.

Dr NORTON - That is a completely different thing.

Mr GROOM - It is important to recognise the \$34 million we are talking about are recurring operational savings.

Dr NORTON - On that point, it is important, last year when we revealed in our accounts that the money was going to Forestry Tasmania, it has no impact on customer prices.

CHAIR - I was not suggesting it did.

Dr NORTON - I just wanted to make the point.

Mr GROOM - The Chair understands that one and some others do not.

Dr NORTON - These savings that we are talking about, through transformation, reducing our cost base, will feed through via future determinations into downward pressure on prices.

CHAIR - We will get to that next determination. We have the current determination that goes to 2019.

Dr NORTON - Distribution and transmission emerging.

CHAIR - Treasury is the one we have just done and distribution is the next one?

Dr NORTON - Transmission goes to 2019. We are going to do a new distribution determination, because it goes to 2017. We are going to do a two-year distribution, and from then on, post 2019, we will go to the AER for transmission and distribution determination at one time.

CHAIR - We might come back to that, if that is all right. Going back to the Auditor-General's - I do not want to go through all of them, the moderate risk. This could be an inherited problem - at 30 June there were 152 employees who had annual leave in excess of the enterprise agreement. That is a cost. Is that an inherited problem, or is it across both parts of the business?

Mr BALCOMBE - That is within the cohort of people we transferred into the business. You could argue it is an inherited problem. Our perspective is there is no such thing as an inherited problem with this business. We own it, and we are dealing with all those things. We are initially targeting to get everyone's leave balances down to 40 days. That is challenging, because some of these people have excessive leave. This is an inherent problem across the state sector, as well as the GBE sector. Notwithstanding that, we are doing a lot of work to manage it down. It is challenging, because, to some extent, we have to consult with our employees as to how we do that.

It is difficult to force people to take leave. We do not want to do that. We want to make sure they take leave at the appropriate times. We have done some little things. We have introduced a Christmas shut-down period, so everyone other than on-call employees or vital operational employees go on leave. Last year, the Christmas just gone, that meant seven days annual leave for people. It also meant close to a fortnight's time off, which, given the activity we had in the business post-merger, was a good time for everyone to refresh. We are doing it again this year, and that will mean three days of annual leave. It is something we certainly manage. All the general managers have within their KPI framework, and with their leaders, to make sure they are managing leave balance. It is not going to happen overnight, purely because of some of these excessive balances. It is something we will do. It is probably a five-year process.

CHAIR - Recently in the media some staff dissatisfaction was reported and TasNetworks seemed - from the outside looking in - to react very promptly. Was any of that related to managing these issues?

Mr BALCOMBE - No, I think there are a couple of issues with regard to that. I suppose, from a contextual perspective, we inherited two enterprise agreements - one from Aurora and one from Transend. They both lapsed on or about 30 June this year. We are entering into enterprise agreement negotiations.

The second point is that we have introduced a code of conduct into the business. There was a lot of grey, particularly in the distribution business previously. We want to introduce consistent codes for things such as accepting gifts and entertainment, use of company goods, use of company vehicles, and the sale of scrap. That has been a long process because we spent a lot of time writing the code with our people and spent a lot of time consulting with them. Once the code was settled we then had sessions across the state to get people to sign on to that code. We wanted to be very clear that once the code was in place the grey had gone.

I suppose this is one of the challenges with a statewide business. You get different leaders in different parts of the state and you get different outcomes. In one part of the state you might get people who can take old cross-arms and add to the scrap bucket; in other parts people might have been using vehicles occasionally for private purposes. We tightened all those things up to make very clear what is appropriate and what is not appropriate.

CHAIR - What is the penalty for a breach of the code?

Mr BALCOMBE - It depends on the severity of the breach. Generally wherever a breach is identified there is a discussion with the leader. If it is theft it would be dismissal. It ultimately depends. This code covers fraud - all those areas. We are starting to hold our people accountable. Some of those issues about accountabilities have started to create some stresses within our business. That manifested itself in some of that publicity about employee wellbeing. One of our responses to that has been that three or four times a year we run zero-harm sessions. In those zero-harm sessions we go right around the state. They generally have a theme. As a business we drive over one million kilometres a month. The zero-harm session prior to the one just gone was about safe and sustainable driving. We also had a chance to talk about electric vehicles and educate our people about what electric vehicles might do for our business, as well as give them some idea about what it could mean for our network.

The session we have just had was based on health and wellbeing. We had two presenters. One presenter was a gentleman who suffered a serious workplace accident at Tassal - driving home. Unfortunately that led to an amputation, then complications in his mental health. We also had a gentleman from Rural Alive and Well. John had suffered from depression. They told very personal stories. Alongside that we had matters such as about looking after your back, how to hydrate yourself properly and good nutrition.

[11.15 a.m.]

As a business, we always seek feedback after those sessions. The feedback from the wellbeing session was outstanding. It was very well done due to the calibre of the people. Just as an aside, we have recently announced a three-year sponsorship and support package with Rural Alive and Well. They are a regional mental health provider and we are a regional business, so we see very good synergies. We are providing them with \$50 000 a year for three years. That will support a new case worker, which we think is a very good thing. We are responding to those wellbeing issues but, in the way we are setting the context in our business, we are holding people accountable. That will from time to time create stresses and strains in our business.

The other issue is that we are a business dealing with change, so we are seeing changes associated with the merger and also changes associated with the dynamic operating environment.

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CHAIR - Have you costed the impact of mental ill health to the business? I went to the Minerals and Energy Council annual meeting recently and they have costed it in their businesses, which would not be dissimilar to your business. Have you put a cost on that?

Mr BALCOMBE - We have not. We are seeing occasional people dropping off on stress leave.

CHAIR - It is not just leaving; it is loss of productivity in the workplace.

Mr BALCOMBE - That is right, and some of that is very hard to measure. Rather than looking back and measuring we are trying to be proactive and getting on the front foot to manage it. The important thing about anxiety, stress and depression is teaching people to understand the signs, recognising it in yourself, as well as your work colleagues being able to recognise it in another work colleague. There was a lot of good work done on that.

Mrs HISCUTT - Are you keeping unions in that loop with your code of conduct?

Mr BALCOMBE - Yes.

Mr GROOM - That has been a very helpful insight into not only some of the challenges the business faces in these areas but also the response of management. Mergers are not easy because you are dealing with the technical systems stuff and with different cultural perspectives and practices. This is a substantial business from an employee perspective - just shy of 1 000 people or thereabouts - so it is natural to expect this will be a process in bedding down rules that people get used to and understand what can and cannot happen, what is acceptable and not acceptable. There is always a natural tension as you bring all these things together for that to happen. In addition, there are people who deal with fairly difficult circumstances within this business and do hard and significant work that can also deliver pressures. I acknowledge the commitment shown by the senior management to address these issues. It is quite commendable and you now have a sense of the commitment.

CHAIR - In response to the six moderate risks the Auditor-General identified, the salary packaging account included bank signatories who are not current employees. Has that been dealt with?

Mr GROOM - Yes.

CHAIR - The land and buildings were last independently valued at 1 July 2011 and have been indexed using CPI to determine fair value at 30 June 2015. The recommendation was that management consider performing an independent valuation.

Mr BURRIDGE - There is a paper to the next audit committee dealing with that.

CHAIR - The fair value of easements was based upon replacement cost determined by an independent valuer in 2003. Another independent formal valuation was recommended.

Mr BURRIDGE - It is in the same consideration as before.

CHAIR - Revaluation adjustments were not allocated to each asset class. Are you addressing that as well?

Mr BURRIDGE - Yes.

CHAIR - The need for improvements to management of inventory; this goes probably to fraud and theft. Is there anything you want to add to what you have already mentioned?

Mr BALCOMBE - It is more a procedural issue as well. We need to get all the inventory we have in the stores on our systems, and that has not been the case. We have had little surprises occasionally where we found stuff that we didn't know that we had, which is challenging, particularly if you have crucial spares you need to be able to locate.

CHAIR - It is better than finding things aren't there when you thought you did have.

Mr BALCOMBE - That is probably right too, Chair. Notwithstanding that, there is a lot of work going on there. Probably the major part of that is within our regional depots in Cambridge, Rocherlea and Devonport. We also have a large store at Bridgewater which has transmission spares in it. We are doing some good work on that but again, it is heavily manually tasked. There is some opportunity at how we automate bar codes and all those sorts of things when we move on to our new systems.

CHAIR - One of the things the Auditor-General identified, and you did also in the annual report, was your gearing. Your benchmark according to your annual report is 55 per cent and the Auditor General has a benchmark of 60. I am not sure where he got that. He was not sure either, I think. His is 61.8 per cent so it is even worse if you use your benchmark.

Mr BALCOMBE - I suppose there is a couple of aspects to that. It is healthy for companies to have debt, that's the first thing, because if you have too much equity the shareholders have too much money tied up. Achieving the appropriate balance between debt and equity is always a challenging issue and generally it is one for the shareholder, but as the operators of the business it is one that certainly we are very much focused on.

When the Australian Energy Regulator looks at how they set our transmission and distribution revenues there is a machine gearing level of 60 per cent. They say 40 per cent equity, 60 per cent debt. We sort of roll in around that number. Our gearing level will go up over time and that has been driven by some of these debt transfers of the Government managing its portfolio. What does that mean for our business? It means we bear a higher interest cost but from the point of view of the risk to the business we are absolutely fine with it. We have done our long-term projections and we can still operate our business safely without any impact on the liability. We can still fund our capital program, meet our interest costs and meet our dividend payments.

I have just recently negotiated revised gearing levels with Tascorp and they are comfortable with that. That should see us quite comfortably sit within our forecast arrangements. Ultimately it is the shareholder's decision if they choose to swap debt or equity between its portfolios. If we were uncomfortable with that we would certainly be advising the shareholder about that. That is our role, but we are not uncomfortable with it. The point is that in essence it means there is more debt transferred to us, we have a higher interest cost and the shareholder sees lower returns. That is the decision for the shareholder.

Mr GROOM - I would say from my perspective as a government you have to make judgments about these things from a portfolio perspective, for want of a better description. We are focused on getting the best outcome broadly across the portfolio, but in discussing these things Lance has been through all the circumstances that gives him and the business comfort about the gearing ratio. It is important to recognise that across the government businesses there are different circumstances so each have their own. From our perspective in making our broader portfolio judgments, obviously we have close engagement with the business. We are collectively committed to ensuring that TasNetworks is set up in a way that can operate sustainably and deliver the services it has to deliver to a high standard, deliver appropriate returns and be in a position where it can operate sustainably. That is an ongoing conversation and, as Lance has just indicated, the businesses advise government that they are comfortable with what we have proposed. We will continue jointly to discuss these matters to ensure that the business is in a sustainable position.

CHAIR - You still have an undrawn limit of \$200 million, anyway. You could still borrow a bit more and draw that down.

Mr BALCOMBE - Yes, but we try not to do that.

Mr FARRELL - We had a briefing with the renewable energy people. What is the long-term effect - I don't know if you have done any projections - with more people generating power at home through solar and other means and more pressure from big business to subsidise energy costs and that type of thing. How is that going to affect your business?

Mr BALCOMBE - Let me break that down into the two elements. From the perspective of more and better generation on the network, there are pundits out there suggesting it is the death knell for the electricity grid as we know it. I certainly do not think that is the case. I have a view that people certainly want to take more control of their energy and install more solar, and we are still seeing about 50 solar connections every month so it is still pretty rapid. We also have the advent of battery technology, so that will allow people with solar to store that energy. As a business we have to adapt to that, but there is some early work on this and the Energy Networks Association has today announced the conclusions of its first grid transformation projects. They are very much focused on making sure the utility of the grid is the customer.

I suppose my thinking on this - and I drew some inspiration for this when I saw the Premier's announcement about Uber coming into Tasmania and also his support of Airbnb from the point of view of a sharing economy - is that there will be people who are going to want to share electricity with each other. That could be through neighbourhoods, between family members or perhaps within broadacre developments and things like that. What will facilitate that is the grid. Where we have to adapt to that is to come up with improved tariff mechanisms that allow that to happen.

You will probably have some questions about tariffs. If we don't adapt that will create enormous challenges for our business. Part of that is getting much closer to the customer and understanding what their drivers are, but facilitating that sharing of electricity is one thing that really underpins the future of electricity networks.

From the point of view of the conversations we are having with our larger customers that is certainly a challenge. We have four large customers who, based on last year's consumption, consumed about 55 per cent of the state's energy. One of the things we have done as a new

business is reset the relationships with those businesses. With a couple of those customers we have an open-book sharing approach -

CHAIR - Who are those four big customers?

Mr BALCOMBE - Bell Bay Aluminium, Norske Skog, TEMCO and Nyrstar - and you could probably include Grange Resources in there as well. We are spending a lot of time talking to those customers understanding their business dynamics and what their expansion plans are. We spend a lot of time with Ray Mostogl and his team because, I think everyone would agree, Ray has done an incredible job with that business, to the extent where we have been able to look at some of his business excellence initiatives and understand how we can bring some of those initiatives he is driving in his business into ours.

[11.30 a.m.]

CHAIR - He has also highlighted that it may drive high prices in the previous determination too.

Mr BALCOMBE - That is right, but I think if you asked him he would say that from the point of view of the transmission determination that has just been approved -

CHAIR - Yes, the previous one I was talking about.

Mr GROOM - There has been a significant shift.

CHAIR - With the absolutely out-there projections in terms of population and use - or demand, probably.

Mr BALCOMBE - That has done two things. There was a lot of spend in that previous frequency period on the network. Transend did not spend all its regulatory allowance and as part of that we passed that back as part of this revenue determination. We chose not to recover \$37 million of that revenue allowance. Alongside that, Bell Bay Aluminium was now at a stage where it squeezed the limit from the point of view of its business efficiency, so it is looking to increase production. I was really pleased when I visited Ray in February this year and he told me how happy he was that our two teams had got together and come up with a really innovative approach about how they would take new load. That new load meant each of us assumed some risk, so we had to work the system harder.

Previously when Bell Bay Aluminium has asked for new load it would generally be, 'You can take it but we have to augment the system and make it stronger to do that', and that comes at a cost. That would create impacts on Bell Bay Aluminium's business case. Through an open-book process we have explained the risks of driving our network harder and that means under certain circumstances, certain scenarios, they might not be able to take that load. Generally they are temperature-related, they are few and far between and contingent upon other events such as supplies coming in and things like that.

CHAIR - And they would just load-shed at that time? If it is 40 degrees they will load-shed.

Mr BALCOMBE - That is right. We have been able to do that. Likewise, they have assumed some risk and we have assumed some risk. They assume the risk of perhaps being load-shed and we assume the risk of working our network a little bit harder and making sure we

maintain the liability. We have done that through that open-book approach and are continuing to do that. I know Grange Resources is talking about expanding at the other end of its mine and it has to think of some new way with its conveyors of getting the ore through the mill. That is going to consume more energy, so we are talking to them about how to do that. We talked to Rod Bender at Norske Skog when they connected the new paper machine up there about how we can collaborate there. We are working as hard as we can to ensure that these businesses are sustainable.

Mr GROOM - The two things you have just spoken about there, Lance, are great examples of the mindset shift that has emerged under this new merged entity of TasNetworks. There is a much greater focus on the customer and more of a partnership approach, recognising that because of its relevance to some of the major businesses and employers of the state, it has a special opportunity to be able to deliver good outcomes not just for the customer but for the people of Tasmania. Bell Bay Aluminium was a great example of it. They had grappled with how to do it previously. As Lance has just alluded to, because of a different approach which has been fully recognised by Bell Bay - they have gone on the public record and acknowledged this shift in approach - they took a partnership approach and they sat down and worked it out.

CHAIR - But you have to accept, minister, that TasNetworks has to do this because one of your major risks is the loss of a major customer.

Mr GROOM - That is right, they do have to do it. I would have a major problem if they were not doing it. It is a key feature of our energy strategy to adopt this approach. What I am alluding to here is that it is a great demonstration of a new approach. In the context of Bell Bay, that outcome was a significant injection of renewed confidence into the northern economy. I am not saying it was the silver bullet but it was an important outcome.

CHAIR - There is no denying that the approach taken is beneficial.

Mr GROOM - A total of 1 500 people are employed directly and indirectly benefit as a consequence of that. The other one I thought was a good example and has been mentioned a couple of times was the transmission determination, because this was a new approach. I have had feedback nationally commending TasNetworks for their approach to that determination because it was the first example nationally of a new approach. The criticism you alluded to had been that some of this stuff - and I am not reflecting on previous decisions - had been slightly overcooked and that there were some inefficiencies in some of the previous determinations. The feedback we received from the regulator as a consequence of TasNetworks' proposal was extremely complimentary in their recognising the need to constrain -

CHAIR - That is reflected in the determination.

Mr GROOM - Yes. It is a great example of a new approach of this business.

Mrs HISCUTT - My question was on Bell Bay and the expansion and how we are supporting them, so thank you very much for the answer.

Mr GROOM - Yes, I have just spoken on it and am acknowledging it because one of things we spoke about earlier on was the need to demonstrate this new approach. It was something that we identified in the energy strategy and I have to commend Lance Balcombe, the board and the

entire management team for their approach in this regard. We have seen that acknowledged by the major businesses in Tasmania.

Mr ARMSTRONG - Talking about solar power and mini-hydro schemes like the one at Plenty, is there any future development of those that you know of?

Mr BALCOMBE - I am personally not aware of any. Probably what we are most aware of is the occasional inquiry about wind turbines and connections from the point of view of -

CHAIR - Into the grid.

Mr BALCOMBE - No, this is from a point of view of privately owned ones as another form of intergeneration. I am not particularly aware of -

Mr ARMSTRONG - There is a mini one at Plenty.

Mr GROOM - It is probably more a broad policy perspective. There are a number around the state and we are supportive of people exploring those potential opportunities. There have been some great examples of mini-hydros. I saw one a few months back in the north of the state that had been in operation since - I cannot remember the exact date but it was 1940 or something and it had effectively rendered that farm self-reliant. Lance has already acknowledged the need to recognise the way the world is going and to ensure that the business adapts to those circumstances, but I am making the point that there are great examples of mini-hydro having delivered good outcomes for a farm and we are very supportive of that.

I would be happy to take that on notice, Mr Armstrong, and get a list of any we are aware of but certainly from our perspective we are very supportive of encouraging that.

Mr ARMSTRONG - The cost of power outages - when the power is off for a certain amount of time you get paid so much?

Mr BALCOMBE - Yes.

Mr ARMSTRONG - Has that grown?

Mr BALCOMBE - It was certainly high last year and mainly on the back of the major storms we had in July, so it was great for us as a new business. There were two things that happened: the ground was very wet - it had been a wet winter - and the storms hit right across the state so a lot of trees just blew out of the ground because of the soft soil. At one stage across the north we had 26 000 customers out as well as storm activity in the south. That meant it took longer for us to get customers back on and our guaranteed service levy means that if we don't get you back on in a certain amount of time we pay either \$90 or \$180. My recollection is, out of those storms, we paid about \$2.3 million. A normal year, if there is ever such a thing, is a \$2 million for guaranteed service levy adjustments. We had a few other storm events during the day but that was probably the major one and the major driver of that going up. Touch wood, we are travelling pretty well this financial year but that sort of thing is hard to predict.

Mr ARMSTRONG - Are they always paid out on time, or is there anything outstanding?

Mr BALCOMBE - We have an obligation to pay in a certain amount of time and generally we do. I think it is within 90 days. We have process about how we can track that down. With that \$26 000 it was challenging. One of the great things about that July storm activity was that our customers were very patient with us because they realised we could not be everywhere at the same time. We have KPIs within our customer service charter about how much we pay, what the duration of outage is, what the threshold issues are, how quick we have to pay money back.

Mr GROOM - It was a very extreme weather circumstance but that happens, so it was a good, early test for the business. Part of the feedback I received off the back of that was an improved engagement with those impacted by the outages. I think you now do stuff on the internet, in terms of providing regular updates?

Mr BALCOMBE - Yes, and Twitter.

Mr GROOM - This has been helpful for people to be able to receive more timely information about the cause of an outage and the anticipated length of time of the outage. That is also helpful at both household and business levels.

Mr BURRIDGE - And a new phone system on the call system to better handle the number of calls that come through.

Dr NORTON - The difficulty with outages like the one we are talking about, is because it is very unusual to have simultaneous outages across the state, it was so widespread that even our people did not have accurate information on how long it was going to take to reconnect. You can have all the systems you want but you must have good information to provide.

Most of our customers, as Lance indicated, are very tolerant of outages when there are severe events and they know our people will be doing the best they can to get it on. One of the really positives things was that happened within the first month of our operation as a new business. When you merge businesses, you are really worried that your 'business as usual' activities might be off the pace a little bit. Our people did get out there very quickly and remediated those assets as quickly as they would have in the Aurora days. There was no impact on our response that we could see from the merger.

Mr GROOM - I would put it higher than that. The feedback I received was quite positive in what was a very extreme scenario.

Mr ARMSTRONG - It was an extreme storm. While we are on finances, in the *Mercury* the other day it was reported about a trip to England for insurance.

Dr NORTON - I have been involved for 30 years with businesses that have had to do major insurance in the UK, in London. In our case, our bushfire insurance is \$750 million coverage and our bill for that insurance is about \$1.5 million. Our overall insurance bill is about \$2.8 million. We spend a lot of money on insurance. When you have these major insurables, such as bushfires, you have to have international underwriters. The local underwriters cannot handle it and most of that underwriting occurs in the United Kingdom. You have underwriters and sub-underwriters.

We had a situation with the bushfires in Victoria a couple of years ago where the payout from bushfires was \$1 billion. The underwriters are antsy about whether they will take it on and we had some of our previous underwriters who decided not to participate this time around. It is a

major issue to acquire underwriters and that market requires people to look at you face to face. They want to see people, they want to talk them, they want to interrogate them, and they want to make sure the business has all the things in place to properly manage that risk. In years gone by when I was managing director of the Hydro, we often had a board member go across. Ross was the senior executive who went, our CFO. He is responsible for insurance. I have no doubt we received excellent value for money.

My experience in a range of different businesses is that if you want proper underwriting you have to take a very professional approach. You need to meet the underwriters and the sub-underwriters. It is based out of London, which is where you have to go. I have no qualms about it. He went business class. I believe that is entirely appropriate. He had a significant number of meetings. He can tell you how many meetings he attended. This was not a cheap junket to Bali to drink grog. This was a serious visit. It is important. Businesses like ours have to be able to send people overseas.

Mr ARMSTRONG - It is good to put it on the record here.

Dr NORTON - I think we need to send people overseas for study tours. Certainly for this one, it was well justified. We received very good coverage and good rates as well, 10 to 15 per cent reduction in rates.

Mrs HISCUTT - Was that because your bushfire mitigation plan was up to scratch?

Dr NORTON - Yes, of course. We have to convince them that we are managing the big risks - and the big one in this case is bushfire risk - appropriately. You cannot do that on the end of a telephone or in a video conference. They have to look you in the eye and hear your responses as to how you support the material you provide to them.

Mr ARMSTRONG - Your major risk would be bushfire?

Dr NORTON - Yes, no doubt. We have \$750 million worth of cover for bushfire. We increased the cover last year. We did that in view of the implications of what happened in Victoria. The reality is that we have assets and if trees blow on them, they can cause fires. It does not matter how well we do our bushfire mitigation. We are extremely professional about that. We try to make sure that none of the bushfires are caused by asset failures of our own, but our assets can be exposed to interference and that can cause bushfires.

CHAIR - Especially your distribution network is particularly vulnerable.

Dr NORTON - The transmission networks, by and large, do not cause fires.

CHAIR - And do not always get destroyed in fires, whereas your distribution network is much more vulnerable.

Dr NORTON - That is right. The insurance covers our assets, but it is also for liability. In Victoria there were huge payouts to the public. Those situations are never black and white. Usually there is some payout. It is a big cross to us and something we take very seriously.

Mr GROOM - This year has been a very important focal point at the business. There is the potential we could have a difficult season and I commend the management for their focus on it.

You can never remove risk, as we all understand, but it is incumbent on the business, because of the exposure, there is the potential flow-on consequences for it to be a clear focal point. There has been a lot of quite intensive work undertaken in terms of mitigation programs. On top of that, a lot of effort has gone in in ensuring there is close engagement with other agencies and other parts of government that are relevant to the overall bushfire mitigation effort and response. It is an important point.

Mr FARRELL - Dr Norton, you mentioned that it is a huge cost to you. What do you pay for insurance?

Dr NORTON - What we are insuring ourselves for is liability. If we start a fire and burn a township, we are liable. The insurance we are getting in the market is to cover our liability. We have some property damage, but we generally have reasonably high deductibles on that. If a wooden pole burns down, you do not cover that. It is ensuring this business against the potential liability that might arise should we start a bushfire. If you think about the Victorian situation, they paid out \$1 billion; our cover is \$750 million. We have to achieve a balance about what we think and will continue to model and analyse what that potential could be. Ultimately we have to reach a balance because you can buy any insurance, but the further you get up the tail of that level of cover the harder it is to find people to cover you, and you pay more for it. We think at \$750 million we have a good balance from the point of view of our liability.

As the minister said, we are doing a substantial amount of work about mitigating those risks. There are several aspects to that. The first point is vegetation. We have a constant vegetation management program around the state.

Mrs HISCUTT - Do you work with the fire department?

Mr BALCOMBE - Certainly, with the fire department and the Bureau of Meteorology. We have our own internal process about what we do on high fire danger days. On vegetation management alone we spend close to \$11 million per annum. We contract that work out because it is a nice parcel of work where we can leverage the opportunity. As we move closer to summer, the cyclic pieces intensify because we want to make sure we get the best cut we can ahead of the fire season.

You may have seen in the paper recently that we are doing helicopter aerial inspections. They were more on the transmission network, particularly in the south-east last year. The south-east of the state is what we have identified as our higher bushfire consequence area. The consequences of having a fire in the south-east are much higher. That is mainly because the majority of assets in the state are in the south from the point of built area, population and things like that. Last year, coming into the fire season we flew over the distribution network. When you are looking down on the distribution network you can do a number of things. You can use some infrared, which identifies poor jointing. Also you can look at the top of wooden cross-arms on the low-voltage network. They might look all right from the ground but when you look down on them from above they may be rotten. Out of that we identified a large number of defects - I think it was in the thousands - and some of those had higher priorities than others because of the extent of the problem. We try to ensure all those issues are dealt with by 31 December. We run a bushfire risk index and we are trying to manage that index down to zero by 31 December. There is vegetation and the work we are doing on the condition of the network. We have now pushed some of that aerial inspection on to the east coast because we got an update to the bushfire situation that the east coast was above normal.

CHAIR - And the north-west.

Mr BALCOMBE - That has subsequently been upgraded to virtually the entire north. From our perspective the weaker part of the network was on the east coast, so that is our next concentration.

We are also doing public education campaigns. You might have seen recently that we launched our campaign about vegetation management and growing trees under powerlines and things like that. The other impact here is a large private network. There is a lot of privately owned infrastructure. We are trying to get the message out for people to manage their infrastructure and the vegetation around that. As the chairman said, there is some grey area around this because occasionally private networks start fires, but we get dragged into that.

If there is a total fire ban, we will generally stop any outage work and generally put our people on standby. We do what we call 'disable our re-closes'. If we get a trip on a line, it will immediately try to re-close and reinstate the line and get rid of the fault. Often what can happen on these hot windy days is that a bit of bark or something falls across a piece of conductor. If you try to re-close that piece of conductor and the bark is still sitting on it, it might ignite, drop to the ground and start a fire. We disable those re-closes. That means unfortunately that customers might be out for a little longer. We do a visual inspection before we go back and re-open the line.

We have introduced processes in our business. It used to take us about eight hours to go through and reprogram those re-closes so we would have to work it up the day before. We have now automated all that so where we can do that in about half an hour now. We have done some work on our SCADA systems.

We also keep an ear to the weather bureau and the weather bureau has updated its processes. On those high fire danger days it issues a bushfire heat index or something like that. Once that hits 38 we make sure we stop all our high-risk work and those re-closes get disabled. When it goes down below 38 we then activate those re-closes so they do operate. We are very conscious of those risks. Certainly from a point of view of customer impacts we are working hard to reduce those on those high bushfire risk days.

Mr FARRELL - I understand the risk and the need for insurances and all type of thing, but I think the concern from the public probably was about having to travel to England to get your insurance; most people are faced with having to beat insurance salesmen away from their front door. What you are saying, Dr Norton, is that you have to actively seek out people to handle your insurance. It is not something that everyone wants to look at?

Dr NORTON - If you want to get \$750 million coverage for bushfires, your local insurance agent cannot handle it. We have a broker and the broker deals with underwriters and sub-underwriters. For that \$750 million a whole group of different underwriters would take different parts of that. You just can't get it in Australia. The reality is that you are dealing with a particular insurance product that you need to get internationally. It is not something for which you can just go down to your local insurance agent.

Mr BURRIDGE - For our primary liability cover we actually lost an underwriter this year because of the Victorian fires. They withdrew. We were able to replace that underwriter, not only replace them in their capacity but write a three-year deal for about 10 per cent less premium.

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The underwriter who came on really came on because of the relationship we have built - and it is Lance as well - over the years with the insurance market in London. This is specialist insurance. It is not simply insurance.

Mr FARRELL - Many people judge it from their own experiences.

Dr NORTON - You had a \$750 million coverage this year. That program commenced on 1 October.

Mr ARMSTRONG - What was it before that?

Mr BURRIDGE - \$590 million.

Mr ARMSTRONG - What is the difference in premiums? Much?

Mr BURRIDGE - Approximately \$200 000. If you had renewed this program like-for-like, there is about a \$200 000 saving. We have increased it by that much for the same premium as last year.

Mr ARMSTRONG - For the same premium you are getting that extra cover.

Mr BURRIDGE - Approximately.

CHAIR - In terms of risks to the business, we touched on withdrawal of a major customer; the relationship you probably established with your major customers hopefully seeks to avoid that. Another risk I see is demands of owners to ministers for the return of equity, which is not really a choice. That is something you have to do and it is government policy. In terms of the extra equity injections into Forestry Tasmania and Hydro Tasmania, and the ongoing contribution to TasRail, how do you see that being managed, and also the extra \$70 million and \$50 million expected in the capital structure review of energy entities for debt transfers to Hydro?

Mr GROOM - We have alluded to this in earlier discussion. It is the ordinary course of the business of government that you look at these issues from a portfolio perspective. That is the basis upon which we have made those judgements.

[12.00 p.m.]

In the context of dividends, we make no apologies for the fact that, from the Government's perspective, we expect the businesses to be able to deliver appropriate returns. They all have their own circumstance, but we do expect the businesses to deliver appropriate returns to the Tasmanian taxpayer. That is critical for helping to fund essential services in this state: police, health, education. This is very important.

In that context, when you describe it as a risk, we do maintain close engagement with the business to make sure the business is able to operate on a sustainable footing. We engage closely with the business to make sure that they are focused on prudent cost management. TasNetworks has demonstrated a strong commitment to that effort. As Lance has indicated, in terms of these expectations, they are expectations they understand and have expressed a comfort with. I am not saying they would not like a different position, but nonetheless they have plan.

Dr NORTON - If I can make a comment - this is from the board's perspective. I think we have covered this previously. It gets back to the amount of debt we carry. We are comfortable we can deal with the debt, and with our debt-equity ratio that we have at the moment, and importantly, we do not believe that it impacts on our capacity to invest in upgrading our facilities. We have the capacity to run the business the way it needs to be run. As also mentioned, it does not impact on customer prices. It is an issue for the Government as to where it has the equity and debt in its businesses. The level of dividends is also a matter for the Government.

From the board of management's perspective -

CHAIR - It is managed. That is what you are saying.

Dr NORTON - We do not see any problem about managing our business, given the dividend-payment ratio we have at the moment, and our debt levels. I can assure you if we had a problem, and if the board had a problem, we would be making that well known to the shareholding ministers.

Mr GROOM - I can assure you that if we had a view that there was a problem, then that is something that we would be working through the business. The key to this is the close engagement between the Government and the business. It is on that basis we have managed these issues.

Mr BALCOMBE - The other thing we do is regularly update our medium-term financial projections.

CHAIR - That is why we would like to see some half-yearlies. Anyway, thank you.

Mr BALCOMBE - They probably will not help you. That is a point in time, so that would show you what happens for a half year, but I can accord with your views there. We have projections that take us to June 2020. That incorporates the existing transmission determination at the current look of the distribution determination. It assumes we get the tranches of debt from Hydro Tasmania and the final TasRail thing.

As an aside, I could mention that I feel somewhat accountable because the \$205 million from the Tamar Valley Power Station has tended to follow me. It followed me from Aurora into Hydro, and then from Hydro to TasNetworks.

CHAIR - Let us know where you are going to go next. Go to Forestry Tasmania and see how that works.

Mr BALCOMBE - Notwithstanding that, from the point of view we have updated dividend ratios and things like that from the shareholder, our gearing based on these projections - and they are conservative - tops out at 66.4 per cent and then -

CHAIR - Which year is that?

Mr BALCOMBE - 30 June 2016. By the time we get to 30 June 2020, it is back to 62.9 per cent. There is a slight decline.

CHAIR - TasRail's contribution - is this next one?

Mr BALCOMBE - That is my understanding.

CHAIR - Unless there is another determination.

On another thing we touched on, and one area we have not. One of the risks I see is the increased use of renewable energy, particularly solar, and people going off grid or feeding more into the network, but also the emergence of reliable battery storage. What is your view on that, and mitigating against that, in terms of your business?

Mr BALCOMBE - It is not dissimilar to how I raised it previously. There are schools of thought about the speed of batteries coming onto the network. Elon Musk, with his Tesla power wall, is attracting a lot of attention. There will be people who will adopt that. It is not economic. Aside from that fact -

CHAIR - Yet.

Mr BALCOMBE - Yes, that is right, yet. Our perspective is, we have to adapt to that new regime and we cannot be complacent about it. If we are complacent about it, people will ignore us and try to become self sustainable. One of the things we can do, as a network owner-operator in Tasmania, but more broadly at a network industry - the Energy Networks Association is a very vibrant industry association - is continue to work with customers about the merits of how we can become part of that overall solution of meeting people's energy needs.

Mr FARRELL - Are there any advantages to your organisation running NBN cables? There has been a discussion about carrying NBN to the west coast. Are there impediments from your point of view?

Mr BALCOMBE - Two points. With NBN, they share our infrastructure from the point of view where they string air equipment on our poles. There has been some considerations in our business about the west coast and NBN. We think it is achievable, but ultimately, that is not our decision. That is a decision by NBN Co. I think the focus with NBN Co on the west coast is, they are trying to do that via satellite. That is my recollection. If we were asked to, we could facilitate that, but that is not our decision.

Mr FARRELL - Is that a hire arrangement, or a cost?

Mr BALCOMBE - It would depend on how that wants to happen. We have a workforce where we could provide the contracting work. Over time, we have provided contracting work to NBN Co. We are holding about \$1.3 million of work with them at the moment that takes us to March next year. We have a constructive relationship with them. I met their state manager last week. We were talking about opportunities where we can work together. The west coast one did not come up in our discussions. We think we could facilitate that with them, because we have a fibre network that goes around the state. Maybe that could help facilitate that in the end. Unfortunately, that is not our decision. It is one for NBN Co.

CHAIR - Another one that might enhance my understanding of how things work. My understanding is that this is correct, that 90 per cent of TasNetworks' revenue is regulated by the AER, and is a monopoly supplier, so AER is critical.

Mr BALCOMBE - Correct.

CHAIR - The asset value is recorded for transmission distribution assets, on page 76, report these have been brought into line with the values used by the AER - the regulated asset base. TasNetworks' distribution business is due to submit its next regulatory proposal. I appreciate it is only going to be a two-year determination to get them in line, so you have distribution and transmission.

Mr GROOM - This for the distribution.

CHAIR - This one is a two-year distribution and then they merge with transmission. How do you expect this will affect electricity prices with the next determination?

Mr BALCOMBE - From the next determination, we think they will either be the same or fall. For the majority of customer base, they will either fall into one of those two buckets. I would say well over 80 per cent. The Australian Energy Regulator sets a revenue cap. This is one of the interesting things about us as a business. We have to substantiate to the regulator how our business is going to operate over the next five years. In the case of this distribution determination, this time it will be for the next two years. We have to lay out what our capex, capital programs are. We have to lay out what our operational programs are. They all get put into a model. Essentially that spits out how much money you can charge your customers. The regulator says on your regulated asset base you can earn a rate of return. The rate of return is established by calculating the weighted average cost to capital. A significant exposure within that weighted average cost to capital is interest rates. The current distribution determination on foot, the weighted average cost to capital is about 8.2 per cent, so for the couple of billion dollars we have in the distribution network we are getting a regulated rate of return of 8.2 per cent.

CHAIR - Wasn't the AER's recent decision on average cost to capital about 6 per cent?

Mr BALCOMBE - I am just coming to that. That was set in 2012 for five years to 2017. What has happened in the intervening period is that interest rates have come off significantly record lows. That is going to be a great thing for customers. It means from the point of view of our business that the weighted average cost of capital and those distribution assets will fall from around 8.2 per cent to somewhere around 6 per cent. That will be finalised after we have lodged our distribution determination.

CHAIR - So you could see lower prices effectively as a result?

Mr BALCOMBE - That is right. That is what we are saying. We think at least the same or lower. That will depend on how that is distributed. There are other things that feed into that. One of the challenges for us is trying to predict where network consumption is going to be, and that has had some volatility. It has had a downward decline for several years and we have seen a jump up with the record cold winter we have had. We are trying to model that, but in essence, the regulator assumes that 60 per cent level of gearing and comes back and says, 'Yes, we'll sign off on your operating expenditure and your capital expenditure and on what you determine what the weighted average cost of capital is.'. It is a formulated process which then establishes what your maximum allowable revenue is. Then, as a business, we operate against that. If we overspend we get penalised for that. If we underspend there are some incentive schemes around that and we have to share that with the customer. We retain some of it and the customer benefits.

You have probably read that at the moment the New South Wales distribution companies are undergoing what is called a merits review. They are objective against the AER's approach there. They have issued a draft determination which has put a lot of cuts on those businesses. We are aiming for an outcome which is very much like transmission. It is unprecedented that the regulator signed off on our transmission revenue proposal. Our objective is to do the same with distribution and that will then deliver those customer outcomes.

CHAIR - Some of our key stakeholders - and yours too - have raised questions and issues that in spite of the renewable energy we have predominantly in this state, we still have higher power prices than many other parts of the country. There are a couple of questions. I will read a couple of them out because you can probably combine the answers.

This is to the minister, but also to the rest of you: what action will the minister take addressing the high asset value, for example, of TasNetworks and reducing electricity prices in accordance with the objectives of the energy strategy? What actions has the minister taken to address the inequity of an overinflated regulated asset base? Essentially, what are you going to say to COAG this week? What is TasNetworks doing to ensure we do not end up with an expensive set of assets which are significantly underutilised?

[12.15 p.m.]

Mr GROOM - The first point I make in response to that is that we have just from Mr Balcombe about the approach of TasNetworks in relation to the asset base and the next determination. We had an outstanding outcome with the transmission determination, and you have just heard again a similar approach to the distribution determination. This is not insignificant. As I commented on earlier, this has been recognised by the AER as a genuinely different approach from a company like TasNetworks presenting outcomes that are prudent, very focused on good outcomes for the customers and more constrained in terms of capital expenditure. The company is to be commended for that.

In the context of electricity prices more broadly, I would have to challenge the assumption there. I believe all the evidence suggests that in fact our prices are at the lower end on any reasonable comparison. As I have indicated also - I think in a discussion we had yesterday - for households and small businesses, as we sit here right now power prices are more than 5 per cent lower in Tasmania today than when we came into government.

Mr BALCOMBE - The Office of the Tasmanian Economic Regulator has issued its latest report that supports what the minister says, that we are at the lower end of the price range. The other point is that our regulated asset base is under stringent review by the AER every time we lodge our distribution and transmission determination. If the AER had a view that there were under-utilised or redundant pieces of that network they would oblige us to remove it from that regulated asset base.

CHAIR - Impair it?

Mr BALCOMBE - Yes, impair it. We do not have that. If we were to identify redundant parts of our network we would take it out of our regulated asset base.

CHAIR - You do not think there is anything there that needs to be impaired, then?

Mr BALCOMBE - No.

CHAIR - And the regulator obviously has not either?

Mr GROOM - No, and in fact even more than that, the regulator acknowledged the effort of TasNetworks in presenting a proposal for the determination that it did not take issue with. In the national context that is pretty unusual.

Dr NORTON - That is the first time it has happened. The other thing that is important to understand is that our business is extremely transparent and the regulatory reset of the price determination process is very transparent. We will put in our proposal for the determination early next year and it will be a public document. We have to do a lot of customer consultation before we put that document up and show evidence that we have talked to our customers. That document then is reviewed by the AER and they put out a draft determination. That is a public document. They then consult with stakeholders about their draft determination and then do a final determination, which will probably come out around April 2017. There is plenty of opportunity for scrutiny of our proposal and full customer and stakeholder input, both to us, but more importantly to the AER in that process. When they make their determination the regulated asset base that they give the tick to has been through a very rigorous process to ensure there are not redundant assets in there that customers are paying for, as an example.

Mr BALCOMBE - As an adjunct to that, too, we are very conscious that Tasmania suffers from a long stringy network and we have a lot of rural components to our network. If we want to upgrade a line or replace a line that on that renewal path but there are only a few customers at the end of it, we might look for non-network solutions. We have already done one and I think they have some form of on-site generation but I cannot remember what it is. That is where we can start to think about solar and battery for non-network solutions so we can still incorporate those into our regulated asset base. If they are more economic -

CHAIR - Even though they are not connected to the grid? It's your asset, though.

Mr BALCOMBE - That is right, they would be part of our asset and we would do that in concert with the regulator and make sure they recognised that because ultimately to do that there has to be a customer benefit.

Dr NORTON - A good example is Bruny Island where the peak load is such that at some point in time we are not going to be able to serve that through the undersea cable. Another undersea cable is going to be very expensive. Maybe it needs to be put in at some point in time, but we are looking at non-network solutions, even diesel generation. We are also about to do a trial including looking at battery technology so that we can meet the peak load on Bruny and forestall the additional cost of putting in another cable for a number of years.

CHAIR - Maybe it will still be together.

Dr NORTON - It could be. We are trying to look at non-network solutions. In the old days, these businesses were incentivised to build more of their standard assets. What is happening now, especially with the regulatory regime and the way we are running this business, is that if we can do a non-network solution that is more cost-effective that is where we will go. We have a non-network solution on the west coast in Queenstown and that is because -

Mr WEEDON - It is at Strahan.

Dr NORTON - Sorry, it is at Strahan. We have a diesel generating set there and that means that if the power distribution line that goes in there -

CHAIR - There is only one line in, isn't there?

Dr NORTON - Yes - is out, we can supply that area through the diesel gen. The alternative was to build another line there.

Mrs HISCUTT - Who supplies the diesel?

Mr BALCOMBE - We do; it is all part of what we own.

Mrs HISCUTT - We buy power, or pay for the transmission, so for the people on this diesel gen, what happens? What does the user pay?

Mr BALCOMBE - Nothing.

Mrs HISCUTT - So they get free electricity.

Mr BALCOMBE - No, they buy their electricity.

Mr WEEDON - The regulated price is what they pay.

Dr NORTON - They pay the regulated price, yes.

Mr BALCOMBE - In essence, those diesel gen sets going in are a much cheaper alternative to maintain the reliability than upgrade that line.

Mrs HISCUTT - I understand, thank you.

CHAIR - I want to ask one quick question because I know we are over time. In regard to the capex, I note in the annual report that there was \$105 million in network capex in 2014-15; [inaudible 12:21:55] states, \$139 million in capex. You mentioned that some of the projects have been dropped from the program in terms of your capital expenditure, and number 38 says capex was \$49.5 million below budget as the result of some removal of some transmission projects. Which ones have we not gone ahead with?

Dr NORTON - We can take that on notice and give you that information.

Mr BALCOMBE - In essence, one of the things we did coming in was have a really close examination of what the forward program looked like. We just updated our board last month, particularly on transmissions, that there was an assumption about the condition of our capital program and that was based on the age profile. When assets get to a certain age it is time to refurbish them so that was incorporated into the program. Once we did the work and inspected these assets they were in better condition than their age profile indicated so that meant we were able to defer the program. A lot of it is associated with an assessment of their actual condition versus their perceived condition due to their age profile.

CHAIR - Thank you, minister. We could spend another hour with you at least.

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Mr GROOM - I thank the board and all the management and staff of TasNetworks for their extraordinary efforts through the course of the last year and no doubt ongoing into the future. They make a very significant contribution through a very important business. Chair, I also thank you and the committee members for being flexible with this morning's time.

CHAIR - Thank you.

The committee suspended at 12.23 p.m.

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